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United States General Accounting Office

GAO

Briefing Report to
Congressional Requesters

Executive Registry

86- 3725X

August 1986

NATIONAL DEFENSE STOCKPILE

Adequacy of National Security Council Study for Setting Stockpile Goals



*(first few pages
only for Eln full
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United States
General Accounting Office
Washington, D.C. 20548

Executive Registry

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National Security and
International Affairs Division

B-223657

August 4, 1986

The Honorable James A. McClure
Chairman, Committee on Energy
and Natural Resources
United States Senate

The Honorable Charles E. Bennett
Chairman, Subcommittee on Seapower and
Strategic and Critical Materials
Committee on Armed Services
House of Representatives

In July 1985, you asked us to evaluate the National Security Council's (NSC's) study of national defense stockpile goals, the results of which were announced on July 8, 1985, and to obtain participating agencies' views on the study. In subsequent discussions with your office, we were asked to provide this interim briefing report assessing whether the NSC stockpile study is a sufficient basis for U.S. mobilization planning, including the proposed changes in national defense stockpile goals.

Materials, such as cobalt and titanium, are stockpiled to meet increased defense demands expected at the beginning of a wartime mobilization. Which materials, and the amounts to be stockpiled, can vary significantly depending on the assumptions used. Assumptions need to be made about issues such as the anticipated defense demand, the capability of U.S. industry to surge to meet demand, sacrifices in consumer-goods production to reallocate resources to mobilization needs, and the availability of materials from foreign sources in times of conflict.

Because of the assumptions it used, the NSC study recommended a stockpile goal of \$0.7 billion, which is much lower than the previous goal of \$16.1 billion, established based on a 1979 study. Of \$10.1 billion in stockpile inventory on hand against the previous \$16.1 billion goal, the NSC study recommended selling \$3.2 billion and holding a \$6 billion supplemental reserve, at least temporarily, of materials already on hand.

Our preliminary assessment is that the NSC study does not appear to provide a sufficient basis for setting stockpile goals or for other U.S. mobilization planning. Although the NSC study methodology was similar to the methods of past studies and made some improvements, the assumptions used were very different, and the study report did not adequately reflect major disagreements among study participants with regard to key assumptions. Furthermore, the study did not adequately show that its results could vary greatly with changes in its assumptions. Such ranges

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of results, which can be quantified by doing sensitivity tests on the assumptions used, were a key part of the prior study, and provided decision makers a basis by which to assess the study's conclusions.

We caution that this preliminary assessment is based on a partial analysis of unclassified material. In our ongoing evaluation of the NSC stockpile study, we are reviewing the stockpile study report and supporting classified documentation, examining past stockpile studies and critiques of those studies, and discussing stockpile issues with representatives of each of the agencies that participated in the NSC study. We are also obtaining the views of outside experts. In our remaining work, one of the key steps is to determine which of NSC's assumptions have the most impact on the level of the stockpile. In order to accomplish this task, sensitivity tests need to be conducted for each assumption.

MAJOR QUESTIONS ARISING IN OUR EVALUATION OF THE NSC STOCKPILE STUDY

Although our work is not complete, it raises questions about whether the NSC study adequately supports its recommendations to (1) significantly reduce stockpile-goal levels and (2) use the study's planning assumptions for other mobilization-preparedness areas. Specific questions include whether NSC study assumptions are consistent with defense planning assumptions and data, with past U.S. economic experience and economic projections by other groups, and with estimates of supply and demand by industry and other experts.

Study participants and industry and economic experts have expressed serious concerns about study assumptions, methodology, and results. For example, key study participants said that they did not agree with NSC's assumptions, and that the NSC study did not adequately show the impact of alternative assumptions. Our initial tests confirmed this, and showed that stockpile-goal levels can vary widely as assumptions change.

The NSC study group initially computed a stockpile goal of \$230 million. NSC then modified assumptions by making adjustments to increase material requirements for the defense and industrial sectors and reduce world supply, which increased the goal to \$691 million. However, NSC's adjustments were limited. For example, study participants reported that no changes were considered for such factors as oil availability and essential civilian requirements. Also, the reported adjustments for such assumptions as defense-sector requirements covered only part of the assumptions' plausible ranges.

We believe that analyses on several additional assumptions are needed, which could provide the basis for decision makers to choose a different goal than the \$691 million NSC proposed. The analyses would involve key assumptions, such as for defense expenditures, nonresidential investment in equipment, the degree of civilian austerity, availability of oil,

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wartime production capabilities of the critical materials mining and processing industries, and the availability of critical materials imports to the United States.

Plausible changes in many of the study's assumptions could cause computed stockpile goals to vary widely. For example, outside experts have suggested that, in a major conventional war, the U.S. wartime economy and associated defense expenditures could far exceed the levels assumed in the NSC study. If the increased expenditures caused a 50-percent increase in material requirements for the defense sector, this one change alone could cause the overall stockpile goal to increase to almost \$1 billion--well beyond the \$691 million proposed by the NSC study. As another example, NSC's study places much greater reliance on foreign sources of supply than was done in prior stockpile studies, or was recommended by some study participants. The impact of these kinds of assumption changes needs to be clearly identified through additional analyses.

BASIS FOR INTERIM STOCKPILE PURCHASES OR DISPOSALS

While we believe that final congressional action on approving a stockpile goal should not be made until we have completed our evaluation, and the Administration has responded to our findings, there appear to be some low risk interim actions that can be taken based on areas where the NSC and 1979 studies are in agreement.

Both the NSC study and a 1979 interagency study, coordinated by the Federal Emergency Management Agency, agree that about \$3.4 billion worth of materials on hand are excess to national security needs, and could be sold or bartered. On the other hand, the current inventory of at least one material--germanium--falls short of both its current and NSC-proposed goals. Furthermore, material experts among the study participants and advisory committees say that some materials being stockpiled, such as cobalt, may need to be upgraded. Your Committees may wish to discuss with one or more of these organizations, such as the National Materials Advisory Council or the General Services Administration, the desirability of using proceeds from future disposal sales, or moneys already in the National Defense Stockpile Transaction Fund, to upgrade such materials.

* * * * *

We discussed our preliminary results with NSC and Office of Management and Budget (OMB) officials who coordinated the NSC study. They told us that stockpile goals were driven primarily by defense planning assumptions, and that they believed the NSC study's assumptions to be consistent with defense planning. A detailed discussion would involve classified information; however, we can point out that the defense guidance addresses a likely range of wartime effort including levels.

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greater than assumed by NSC. Also, unlike the NSC study, which accepts increased reliance on foreign sources of material supply, the defense guidance indicates that a growing reliance on foreign sources poses a threat to national security.

Analyses of different assumptions than those used in NSC's proposed \$691 million stockpile goal would, in our opinion, show a much broader range of stockpile goal options. Differing assumptions for a variety of factors have been suggested by top study participants and other experts. In response to our request for further analyses of defense and other assumptions, NSC and OMB officials said that they would consider analyzing key assumptions on a case-by-case basis, but they have not yet begun such analyses.

We are sending copies of this briefing report to the Chairmen, Senate and House Committees on Armed Services, the Senate and House Committees on Appropriations, the Senate Committee on Governmental Affairs, and the House Committee on Government Operations; to the Assistant to the President for National Security Affairs; and to the heads of the 12 agencies which participated in the NSC study. Copies will be made available to other interested parties upon request.

If you have any questions, please call Martin M Ferber, Associate Director for Manpower, Reserve Affairs, and Logistics, at 275-4001.



Frank C. Conahan
Director

C O N T E N T S

APPENDIX

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ABBREVIATIONS

DOD	Department of Defense
GAO	General Accounting Office
GNP	Gross National Product
NSC	National Security Council
OMB	Office of Management and Budget